

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6596

Tariff filing of Citizens Communications Company,
d/b/a Citizens Energy Services, requesting a rate
increase in the amount of 40.02%, to take effect
December 15, 2001

TESTIMONY OF
HELMUTH W. SCHULTZ, III
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

March 7, 2002

Summary: Mr. Schultz's testimony addresses Overall Financial Summary, Accounting Concerns, Rate Base, Operating Income, and provides a Summary of Accounting Problems.

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1 I. INTRODUCTION

2 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

3 A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant licensed in the
4 State of Michigan. I work for the firm of Larkin & Associates, PLLC, Certified Public
5 Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

6
7 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

8 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting
9 Firm. The firm performs independent regulatory consulting primarily for public
10 service/utility commission staffs and consumer interest groups (public advocates,
11 consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive
12 experience in the utility regulatory field as expert witnesses in over 450 regulatory
13 proceedings, including numerous electric, water and wastewater, gas and telephone
14 utilities.

15
16 Q. ARE THERE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
17 VERMONT DEPARTMENT OF PUBLIC SERVICE?

18 A. Yes. Kathryn Parlin sponsors the Department's recommended adjustments to DSM costs.
19 Witnesses Bruce Biewald, Paul Chernick and William Steinhurst address Hydro Quebec
20 purchase power costs. Sean Foley of the Department address other purchase power costs.
21 Deena Frankel and Sharon Allen of the DPS have also filed testimony on non-rate issues.

1 II. OVERALL FINANCIAL SUMMARY

2 Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?

3 A. Yes. Attached to this testimony is Exhibit DPS-HWS-1, that consists of Schedule A,
4 Revenue Requirement Summary; Schedule B, Summary of Rate Base; Schedule C,
5 Schedule of Adjustments to Operating Income; and Schedule D, Rate of Return. In
6 addition, I have included supporting Schedules B-1 through B-5 and C-1 through C-6.

7
8 Q. WHAT DOES SCHEDULE A, ENTITLED "REVENUE REQUIREMENT
9 SUMMARY" SHOW?

10 A. Schedule A presents the calculation of revenue requirement, at this time, giving effect o all
11 the adjustments I am recommending in this testimony, along with adjustments
12 recommended by DPS witness Kathryn Parlin, Paul Chernick, Bruce Biewald and Sean
13 Foley. The adjustment to rate base on Schedule A is summarized on Schedule B and the
14 supporting B schedules. The adjustment to net operating income on Schedule A is
15 summarized on Schedule C and the supporting C schedules. Schedule D presents the
16 agreed upon capital structure and cost rates, resulting in an overall rate of return of
17 6.43%. The calculated rate of return includes the continuation of the 525 basis point
18 penalty, consistent with the Board's Order Re: Motion in Limine in this case, dated
19 January 23, 2002.

20
21 The DPS is currently recommending a \$426,113 increase in rates for Citizens Utilities
22 Vermont Electric Divisions (VED). As discussed in my testimony, the DPS is still

1 evaluating responses to data requests. Consequently, the amount of change recommended
2 by the DPS may need to be revised.

3
4 III. RATE BASE

5 Interim Accumulated Depreciation

6 Q. HAVE YOU NOTICED ANY SIGNIFICANT ERRORS IN THE COMPANY'S
7 CALCULATION OF NET PLANT-IN-SERVICE?

8 A. Yes. The Company's filing does not account for the interim period depreciation in its
9 accumulated depreciation balance.

10
11 Q. WHAT ADJUSTMENT IS REQUIRED FOR THE RECOGNITION OF INTERIM
12 PERIOD DEPRECIATION?

13 A. Accumulated depreciation must be increased by \$4,548,839. The adjustment is based on
14 the calculated average accumulated depreciation balance for the period ending June 30,
15 2002.

16
17 Q. HOW DID YOU DETERMINE THE AVERAGE ACCUMULATED DEPRECIATION
18 FOR THE PERIOD ENDING JUNE 30, 2002?

19 A. As shown on Schedule B-1, VED's accumulated depreciation balance at December 31,
20 2000 was \$25,857,704. I added six-months of depreciation or \$1,306,717 to the June 30,
21 2001 balance of \$27,164,421. This is the beginning balance for determining the average.
22 I then added \$2,613,434 of depreciation for the twelve months ended June 30, 2002 to

1 arrive at the June 30, 2002 accumulated depreciation balance of \$29,777,855. The
2 average of the June 30, 2001 balance of \$27,164,421 and the June 30, 2002 balance of
3 \$29,777,855 is \$28,471,138. The Company's proposed average balance of \$23,922,299
4 needs to be increased by \$4,548,839 in order to reflect the \$28,471,138 average balance
5 for the interim period. This is the 12 months preceding the period in which rates will go
6 into effect.

7
8 Q. WHY MUST AN ADJUSTMENT BE MADE TO REFLECT THE DEPRECIATION IN
9 THE INTERIM PERIOD?

10 A. Ratepayers will pay current rates which include the recovery on plant through the interim
11 period until July of 2002, when new rates are expected to go into affect. If the
12 depreciation being paid through that time is not recognized as an offset to rate base,
13 ratepayers will pay for that plant twice. I raised this same issue in a case involving Green
14 Mountain Power Corporation, Docket No. 5532. On appeal of the Board's Order in
15 Docket No. 5532, the Vermont Supreme Court, in Docket No. 92-353, stated that it
16 agreed with the concept of reducing "rate base to account for interim year accumulated
17 depreciation on the test year plant." This is a "known and measurable" change with
18 absolute certainty. The Vermont Supreme Court recognized this as an appropriate
19 adjustment and provided the following rationale for their conclusion:

20 The essential reason to apply the "known and measurable change" principle to the
21 test year rate base is that once customers have, in effect, returned a portion of a
22 utility's investment, they should not be required to pay for that portion a second
23 time, once as depreciation expense and again as a return on plant value which had
24 not been correspondingly reduced to reflect the "return of" the investment through

1 depreciation expense payments. See State Utilities Comm'n v. Duke Power Co.,
2 287 S.E.2d 786, 796 (N.C. 1982) (rejecting power company's suggestion to adjust
3 test period depreciation expenses without an offsetting increase to accumulated
4 depreciation because customers would then pay twice, once for adjustment for
5 depreciation and then again based on an inflated rate base); Re Idaho Power Co.,
6 76 P.U.R.4th 326, 369 (Idaho Pub. Util. Comm'n 1986) (test year rate base should
7 be adjusted by known depreciation to prevent double counting). See generally,
8 C.F. Phillips, The Regulation of Public Utilities at 312 (1984) (discussing double
9 payment issue).

10
11 162 Vt. 378, 383-384 (1994)
12

13 This practice has been followed by the other Vermont electric utilities in filings made
14 subsequent to the Supreme Court's Order. Apparently, this now-standard adjustment in
15 Vermont was an oversight on Citizens' part in this proceeding.

16
17 Q. HOW DID YOU DETERMINE THE DEPRECIATION EXPENSE TO USE FOR THE
18 INTERIM PERIOD?

19 A. I utilized the depreciation expense from the year 2000, as provided by the Company in the
20 response to Informal Request No. 2. The amount, totaling \$2,613,434, is less than the
21 2000 depreciation expense of \$2,767,190 shown on Company Schedule C.A and the
22 Company's 2000 FERC Form 1.
23

24 Q. IS THE AMOUNT OF EXPENSE REFLECTED BY YOU REASONABLE?

25 A. Yes. In fact, it is conservative. In response to Informal Request No. 3, the depreciation
26 expense for the six month period ended June 30, 2001 was \$1,473,033. This actual
27 amount is \$166,316 greater than the \$1,306,717 used in my calculation. The Board may

1 want to consider revising my adjustment to reflect the impact on accumulated depreciation
2 of the higher actual depreciation expense.

3
4 Rate Year Accumulated Depreciation

5 Q. WHY IS ANOTHER ADJUSTMENT TO ACCUMULATED DEPRECIATION
6 REQUIRED FOR THE RATE YEAR?

7 A. The Company is including in the rate year depreciation expense. This depreciation being
8 recovered during the year must be recognized, in part, as an offset to rate base by
9 increasing the average accumulated depreciation.

10
11 Q. IS THIS A STANDARD THAT IS ACCEPTED IN VERMONT?

12 A. Yes. I raised this issue in the Green Mountain Power Corporation Docket No. 5428. The
13 Board stated in the Order for Docket No. 5428, the following:

14 Failure to recognize in rates the thirteen-month average effect of depreciation on
15 new investment during the adjusted test year would produce, *ceteris paribus*,
16 return on investment that is economically unjustified. (Emphasis Added)
17

18 This Decision expands the Decision in Docket No. 4865, that established the principle that
19 the average rate base to be used in setting rates would be the average for the year in which
20 rates go into effect. While no proposed additions beyond the rate year have been
21 requested the two Orders clearly addressed the issue regarding what is to be included in
22 rate base.
23

1 Q. WHAT ADDITIONAL ADJUSTMENT IS REQUIRED TO REFLECT THE
2 ACCUMULATED DEPRECIATION BALANCE IN THE YEAR RATES GO INTO
3 AFFECT?

4 A. The average accumulated depreciation will increase \$2,213,557 during the year rates will
5 be in effect. As shown on Schedule B-1, this is the difference between the average
6 accumulated depreciation balance of \$30,684,695, for the year rates will be in effect, and
7 the interim period average accumulated depreciation balance of \$28,471,138.

8
9 Used and Useful

10 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR NON-USED AND
11 USEFUL PLANT?

12 A. I recommend that Plant Account 391.1 (Computer Equipment) and Account 397
13 (Communication Equipment) be reduced \$809,268 and \$51,896, respectively, in order to
14 remove from plant in service items that are no longer used and useful in serving Vermont
15 ratepayers. In addition, the accumulated depreciation for computers and communication
16 equipment are being reduced \$776,220 and \$35,225, respectively.

17
18 Q. HOW DID YOU DETERMINE THE AMOUNTS INCLUDED PLANT THAT ARE NO
19 LONGER USED AND USEFUL?

20 A. The Company recently completed an audit of its transmission and distribution plant
21 because of problems with plant records and the failure to remove plant no longer used and
22 useful. As a follow-up to see if any action was taken by the Company in correcting similar

1 problems with production and general plant, I requested plant detail for four general plant
2 accounts. After reviewing the detail, follow-up requests were issued. A number of items
3 listed in the detail were very old and/or the accumulated depreciation for specific items
4 was significantly in excess of the items' original cost, making further investigation
5 necessary.

6
7 Q. WHAT DID YOU DETERMINE FROM THE RESPONSES TO THE FOLLOW UP
8 REQUESTS?

9 A. In the computer account, of 15 specific items that I requested information on, only two
10 were still in use. In an updated response to DPS 2-16, the Company identified 81 items,
11 with a total cost of \$809,268, that were no longer in use and should be removed from
12 VED's property records. This adjustment removed 48% of the total cost in Account
13 391.1.

14
15 Q. DID YOU MAKE AN ADJUSTMENT TO REMOVE THE 81 ITEMS CITIZENS
16 AGREES SHOULD BE REMOVED?

17 A. Yes. As shown on Schedule B-2, page 2, I made the adjustment to plant, as
18 recommended by the Company. However, I reduced accumulated depreciation by
19 \$776,220 instead of \$809,268. Some of the items were not fully depreciated. In addition,
20 instead of reducing depreciation expense \$77,123 as recommended by Citizens, I removed
21 the entire \$160,224 of depreciation for computer equipment in the rate year.

1 Q. WHY DID YOU REMOVE ALL THE COMPUTER DEPRECIATION EXPENSE IN
2 THE TEST YEAR?

3 A. As shown on Schedule B-2, page 2, at line 3, the adjusted cost for Computer Equipment
4 in plant in service at December 31, 2000 was \$871,992. Line 6 shows that the adjusted
5 accumulated depreciation for computer equipment at December 31, 2000 was \$842,813.
6 By the time new rates go into effect, an additional year and one-half of depreciation
7 expense will be recorded. In the year 2001 alone, that equates to \$364,661. The
8 \$364,661 added to the December 31, 2000 accumulated depreciation balance of \$842,813
9 results in an accumulated depreciation balance of \$1,207,474 at December 31, 2001. That
10 is \$335,482 more in accumulated depreciation than the computer equipments original cost
11 of \$871,992. Since the computer equipment at December 31, 2001 will have been over-
12 depreciated by 38% it would be totally inappropriate to allow any further recovery of
13 computer equipment from ratepayers.

14
15 Q. HOW COULD THIS OVER-DEPRECIATION OF ASSETS OCCUR?

16 A. First, items that were no longer in service continued to be depreciated on the Company's
17 books. Also, there are a number of assets that are still on the books, even after the
18 adjustment, that have been over-depreciated by the Company. An example of this is item
19 1643058, Central Processor Unit, which has a cost of \$125,000 and an accumulated
20 depreciation balance of \$154,468 at December 31, 2000. As of today's date, the excess
21 depreciation will be even greater. Citizens is continuing to record depreciation on items
22 that are already fully depreciated.

1 Q. WHAT ADJUSTMENT DID YOU MAKE TO COMMUNICATION EQUIPMENT?

2 A. Communication equipment cost is being reduced \$51,896. My recommended
3 accumulated depreciation adjustment on communication equipment is \$35,225.
4

5 Q. HOW DID YOU DETERMINE WHICH COMMUNICATION EQUIPMENT ITEMS
6 TO REMOVE?

7 A. In response to DPS 2-22, the Company identified the two-way radios from the asset listing
8 provided in response to Informal Request No. 26 that were assigned or in storage. I
9 compared the two listings and determined that there were two-way radios not assigned or
10 in storage. In an attempt to determine whether any of the unaccounted for radios should
11 be removed from plant, I requested additional information on five items.
12

13 In the Company's response to DPS 8-13 it was indicated that three of the five items listed
14 "are no longer in use and should be removed from VED's property records." The
15 response continued as follows:

16 The Company has performed an analysis of Account 397 and has determined that
17 there are additional assets that are no longer in use and should be removed from
18 the property records. A list of these assets is attached.
19

20 The list of 27 items have a total cost of \$51,896. However, in reviewing this listing I
21 noted that 12 of the items were on the listing of assigned two-way radios provided in
22 response to DPS 2-22. It is apparent that the Company records are not current. The
23 adjustment on Schedule B-2, page 3, is reluctantly based on the response to DPS 8-13.

Q. ARE THERE OTHER CONCERNS WITH ACCOUNT 397, COMMUNICATION EQUIPMENT?

A. Yes. Because of the conflicting responses there remains a concern that additional items may no longer be in use. The two-way radios listed below are of particular concern due to the fact no assignment was identified in response to DPS 2-22.

<u>Item No.</u>	<u>Description</u>	<u>Cost</u>	<u>Acquired</u>
1622707	5 Radios	\$ 4,937	1988
1626686/9	? Radios	\$23,398	1989
163414/3	28 Radios	\$77,665	1991
1637229	3 Radio	\$19,893	1992
1643438	1 Radio	\$34,880	1994

An additional adjustment may be required if it can be determined what items are or are not still in use.

Q. IS DEPRECIATION EXPENSE AFFECTED BY THIS ADJUSTMENT?

A. Yes. As shown on Schedule B-2, page 3, depreciation expense should be reduced \$1,619 based on the Company's revised depreciation rates included in this filing.

Q. DID YOU MAKE ANY ADDITIONAL ADJUSTMENTS TO REMOVE ITEMS NO LONGER IN USE?

A. Not at this time. However, information that was requested to assist in that determination for Account 392 suggests another adjustment may be required. The listing of assets in Account 392 Transportation Equipment, in response to Informal Request No. 26, identifies approximately 74 different items. Based on the descriptions, 54 appear to be

1 vehicles.

2
3 In response to DPS 2-22, there were 32 vehicles that have radios assigned to them
4 suggesting there may be an excess number of vehicles in Account 392. The Company's
5 response to DPS 8-5 indicates there are 20 non-power units and 26 power units insured in
6 the year 2000. The fact that there are only 26 vehicles insured suggests that either all the
7 vehicles are not being insured or there could be up to 28 vehicles included in rate base that
8 are no longer in use.

9
10 Q. WHAT ARE YOU RECOMMENDING BE DONE TO CLEAR UP THIS
11 DISCREPANCY?

12 A. An analysis of Account 392 should be done, and compared to a physical inventory of
13 Transportation Equipment.

14
15 Q. DID THE COMPANY PERFORM ANY ANALYSIS OF ITS PRODUCTION OR
16 GENERAL PLANT TO DETERMINE IF ITEMS NO LONGER IN USE WERE STILL
17 ON THE BOOKS AND BEING DEPRECIATED?

18 A. No. In response to DPS 5-49, the Company stated that the only analysis of plant accounts
19 were for the transmission and distribution audits. This is rather surprising in light of the
20 Board's findings in Docket 5841/5859. I believe that audits of accounts in addition to
21 transmission and distribution should be done. I understand that the Department will
22 address this issue further in its brief in this case. I recommend the Board consider

1 requiring an actual physical inventory of the production and general plant since the
2 amount of overstatement for computer equipment was so significant. If Companies fail to
3 retire plant on their books, the result will be charging ratepayers for plant that does not
4 exist and/or is not used and useful. Clearly, such a result is inappropriate.

5
6 Deferred Income Taxes

7 Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO DEFERRED INCOME TAXES?

8 A. Yes. The Company removed from rate base the \$581,342 of deferred income taxes
9 associated with the transmission and distribution plant removed as part of the T&D Audit.
10 Although there is a relationship between the deferred income taxes and the plant removed,
11 the adjustment to deferred income taxes is not appropriate.

12
13 Q. WHY IS THE COMPANY'S ADJUSTMENT TO DEFERRED INCOME TAXES
14 INAPPROPRIATE?

15 A. Tax expense for ratemaking is based on accrued income taxes, not paid income taxes.
16 Ratepayers are paying a portion of income taxes in advance. Due to the fact that the taxes
17 are paid in advance by ratepayers, rate base is reduced for the tax payments that are
18 actually deferred by the Company to allow for a return on that advance. The audit
19 adjustment to plant does not change that fact. The taxes have already been paid by
20 ratepayers and ratepayers are entitled to the rate base offset until the Company actually
21 pays the taxes it has deferred. The \$581,342 averaging adjustment on Company Schedule
22 B.4 should be reversed. I reflected the reversal on Schedule B.

Deferred Costs

Q. HAVE YOU ANALYZED THE COMPANY'S REQUEST TO INCLUDE IN RATE
BASE THE DEFERRAL OF SELECTED COSTS?

A. Yes. The Company has requested recovery of the following deferred costs:

Pre 1999 DSM Costs as Settled;
1998 Ice Storm Costs as Settled;
1999 Wind Storm & Hurricane Floyd Damage;
Unamortized PCB Costs;
Y2K Costs; and
HQ Arbitration Costs.

The sum of the deferred costs in rate base is \$9,938,917, or 26.6% of the Company's rate
base request. The annual amortization of the deferred costs included in the filing is
\$3,124,694.

Q. DO YOU HAVE ANY CONCERNS REGARDING THE RATEMAKING
TREATMENT REQUESTED?

A. Yes. The amortization of the previously approved DSM and storm costs are scheduled to
be completed 21 months after the proposed new rates would go into effect. If rates are
not reviewed and/or adjusted again by May of 2004, the Company will continue to recover
approximately \$150,580 a month (\$1,806,598 annually), which it is not entitled to.
Although regulatory lag is not uncommon, the amount of potential over recovery is
considered significant.

1 The remaining deferrals, excluding DSM, and Y2K costs are questionable due to the fact
2 that the Company either had not requested an accounting order to defer the costs for
3 consideration in a future rate proceeding or the costs are not appropriate.

4
5 Q. SHOULD THE COMPANY HAVE SOUGHT AN ACCOUNTING ORDER FOR
6 EACH OF THE ITEMS IT DEFERRED?

7 A. Yes. The Company is fully cognizant that an Order should be obtained. The Company
8 was asked in DPS 5-20 of its understanding of when an Accounting Order is needed to
9 defer costs that would otherwise be expensed. The response was as follows:

10 An accounting order should be requested for any unusual or extraordinary
11 expenses that the Company seeks to defer and recover such costs in rates in a
12 future rate filing. (Emphasis added)
13

14
15 Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE DEFERRALS?

16 A. Yes. I am recommending an adjustment for each of the costs for which an accounting
17 order was not requested. In addition, I am recommending that the specific requested
18 deferrals be disallowed or adjusted based on other specific concerns.

19
20 IRP Twenty Year Plan

21 Q. WHAT ARE YOU RECOMMENDING REGARDING THE IRP TWENTY YEAR
22 PLAN?

23 A. First, the Company's counsel acknowledges in the response to DPS 5-23 that "There is no

1 Board order approving the deferral of IRP costs.” In addition, the costs were incurred in
2 1996, 1997 and 1998. Recovery of the costs were not included in the MOU in Docket
3 No. 6332 and the costs are definitely not current. Full support for the costs was not
4 provided, despite being requested. The Company’s response to Informal Request 13
5 suggests the information cannot be located. Since the “additional supporting
6 documentation” was not provided, as indicated, it is presumed it could not be located.
7 The availability of information to support claimed costs was a concern that was to be
8 addressed as part of the probation.
9

10 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

11 A. As shown on Schedule B-3, rate base should be reduced by \$101,207 and amortization
12 expense should be reduced \$25,302.
13

14 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

15 A. The Company’s request was based on a total cost of \$440,281. Partial invoices indicated
16 contract amounts of \$311,838 for outside consultants. The unsupported outside
17 consultant costs were \$126,509. No support was provided for \$1,934 of office supplies.
18 Adjusting for only the \$126,509 of unsupported consultant costs reduces rate base
19 \$101,207 and amortization expense \$25,302 based on a five-year amortization period.
20 The calculation on this adjustment is presented on Schedule B-3, lines 1 through 6.
21

1 PCB Costs

2 Q. WHY ARE YOU REMOVING THE DEFERRED PCB COSTS?

3 A. No approval was requested of the Board for the Company to defer the PCB costs. The
4 Company has already included \$707,427 of the \$1,116,399 of costs incurred in rate base
5 in Docket No. 5841/5859. Finally, the cost requested as a deferred cost is also included in
6 the plant accounts. In essence, the Company has asked for double recovery.

7
8 Q. HOW DID YOU DETERMINE THE COSTS WERE STILL IN PLANT?

9 A. First, the FERC Form 1 for 2000 does not reflect a deferred debit for the PCB costs. This
10 means the amounts previously in plant were not reclassified on the books. Next, there is
11 no adjustment in the filing indicating a transfer from plant. Finally, in response to DPS 5-
12 19, the Company stated, “VED has not stopped depreciating these costs, nor have they set
13 up a deferral. These costs still reside in Plant in Service and they are still being
14 depreciated.”

15
16 Q. SHOULD THE AMOUNT REMAIN IN THE PLANT ACCOUNTS?

17 A. Yes. The Company’s rationale for capitalizing the costs in plant was that the
18 “Expenditures added to the life of a long lived asset.” The rationale is appropriate and the
19 costs should remain in plant and continue to be depreciated. The requested deferral of
20 \$833,695 and amortization of \$208,424 should be removed. The adjustment to rate base
21 of \$833,695 and amortization expense of \$208,424 is shown on Schedule B-3, lines 7 and
22 8.

1999 Wind Storm and Hurricane Floyd Costs

Q. WHAT RECOVERY IS THE COMPANY REQUESTING FOR STORM COSTS?

A. In addition to the 1998 ice storm costs approved in Docket No. 6332, the Company is seeking recovery on and of 1999 wind storm and hurricane costs deferred and \$100,000 per year for “normal storm restoration efforts.” The resulting adjusted test year expense for storms is \$637,272. The Company deferred 1999 storm costs of \$506,470, resulting in an increase in rate base for the deferral of \$405,176 and \$101,294 of amortization expense. The \$100,000 annual expense requested is based primarily on the same \$506,470. This is essentially a request for the same costs twice.

Q. HAVE THE 1999 STORM COSTS BEEN DEFERRED BASED ON AN ACCOUNTING ORDER FROM THE BOARD?

A. No. The data request, DPS 8-25, specifically asks if an accounting order exists allowing the costs to be deferred. The response to that request is as follows:

(By counsel) No. The Company is seeking to amortize these costs because they are extraordinary, non-recurring costs.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT FOR 1999 STORM COSTS?

A. Yes. The costs were incurred in 1999. The Company did not seek or obtain approval to defer the costs. The requested deferral and amortization should be removed from the adjusted test year. As shown on Schedule B-3, rate base should be reduced \$405,176 and

1 amortization expense should be reduced \$101,294.

2
3 Q. SHOULD THE COMPANY BE ALLOWED ANY RECOVERY OF THE STORM
4 COSTS?

5 A. Yes. To the extent costs are incurred, recovery of some type should be allowed.
6

7 Q. ARE YOU RECOMMENDING THE COMPANY'S PROPOSED FUTURE STORM
8 COST RECOVERY OF \$100,000 BE ALLOWED?

9 A. No, not the full amount requested of \$100,000 per year. The method by which the
10 Company is requesting recovery is not appropriate, nor is the amount.
11

12 Q. WHAT IS WRONG WITH THE COMPANY'S PROPOSED METHOD?

13 A. First, the Company has calculated its future recovery based on six combined years of costs
14 being averaged based on five years. In other words, the periods used in the numerator and
15 denominator are inconsistent. Next, the costs include payroll, which when taken into
16 consideration with the year 2000 results, results in a double count of payroll costs. The
17 double count results because there are no storm costs in the year 2000, which means
18 payroll dollars charged to storm costs in previous years is already reflected elsewhere in
19 the 2000 operating and maintenance expense. To include those same dollars in the future
20 storm cost recovery would equate to a double recovery of payroll dollars.
21

22 Q. HOW SHOULD THE RECOVERY BE CALCULATED?

1 A. As shown on Schedule B-4, I have taken the annual storm expense for the period 1996 to
2 2000 and removed the payroll costs. The resulting total five year expense to be averaged
3 is the \$449,793 paid to contractors. Based on a five-year average, the annual expense
4 should be \$89,960. I consequently, recommend a regulatory reserve of \$90,000 per year
5 be established.

6
7 Q. HOW SHOULD THE RESERVE BE ACCOUNTED FOR?

8 A. The reserve would be accounted for similar to deferred income taxes. The test year will
9 reflect a \$90,000 annual expense, and rate base will reflect a deferred credit of \$45,000
10 based on the test year average. As actual major storm costs are incurred, a charge will be
11 made to the reserve. The reserve balance will increase or decrease each year based on the
12 net difference between the accrual and charges during the year. In the Company's next
13 rate proceeding, the accrual could be adjusted based on the most recent five years of
14 actuals, taking into consideration the balance contained and accumulated within the
15 reserve as of that point.

16
17 HQ Arbitration

18 Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE HYDRO QUEBEC
19 ARBITRATION COST AMORTIZATION?

20 A. Yes. I recommend that the amortization period be extended from the five years requested
21 by VED to ten years. The cost of the litigation is directly related to the Company's
22 contractual commitment with Hydro Quebec. Two of the five long term contracts expire

1 in 2012, two expire in 2015, and the fifth contract expires in 2020. I recommend that the
2 net arbitration costs be amortized over a ten year period, which is the shortest remaining
3 duration on the existing long term contracts.
4

5 Q. WHAT ADJUSTMENTS SHOULD BE MADE TO REFLECT THE LONGER
6 AMORTIZATION PERIOD?

7 A. Annual amortization expense should be \$56,743 or 50% of the amount requested by the
8 Company.
9

10 Q. WHAT ADJUSTMENT SHOULD BE MADE TO RATE BASE FOR HQ
11 ARBITRATION COSTS?

12 A. The Company is not entitled to earn a return on the unamortized balance. Rate base
13 should be reduced \$453,946.
14

15 Q. DID THE COMPANY REQUEST AN ORDER TO DEFER THE ARBITRATION
16 COSTS?

17 A. Yes, the Company did. The accounting order though only preserves the right for the
18 Company to request that historic costs be considered for recovery of and/or on in a future
19 rate proceeding. The order is not a guarantee. It specifically states that it "is limited to
20 the accounting treatment for the subject costs and does not bar any party from contesting,
21 or the Board from determining or disallowing, the reasonableness or prudence of such
22 costs, or the ratemaking treatment for such costs, in whole or in part, in any rate

proceeding.” The Department believes that recovery of the costs is sufficient and that the recovery on the unamortized amount is not necessary. Sufficient justification for recovery of and/or on has not been provided by the Company. The removal of the \$453,946 from rate base is appropriate.

Working Capital

Q. WHY IS THERE AN ADJUSTMENT TO WORKING CAPITAL?

A. The working capital requested is based on the formula method. Any adjustment to operating expenses impacts the working capital requirement. Based on the adjustments I am recommending to operating expense the associated working capital impact is automatically flowed through.

IV. OPERATING INCOME

Revenue Adjustments

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE REVENUES CONTAINED IN THE COMPANY’S FILING?

A. Yes. I am recommending several revisions to the revenues contained in the Company’s filing. There are several inherent problems with the amounts presented by the Company, along with several errors that need to be corrected.

Q. WHAT IS THE FIRST PROBLEM WITH THE COMPANY’S REVENUE CALCULATION YOU HAVE IDENTIFIED?

1 A. In February 2000, the Company received an increase in rates as a result of Docket No.
2 6332. In its filing, the Company failed to annualize the rate increase for the period
3 January 2000 through the effective date in February 2000. In response to the
4 Department's First Set of Informal Data Requests, Data Request No. 43, the Company
5 agreed that it inadvertently failed to annualize the impacts of the rate increase, and that
6 such a revision to the filing is appropriate. In the response, the Company indicates that
7 revenues should be increased by \$356,470 to correct this error.
8

9 Q. WHAT IS THE NEXT ERROR CONTAINED IN THE COMPANY'S FILING?

10 A. In its filing, the Company made an adjustment to increase residential revenues by \$1,463
11 to "Increase revenue due to delay in renewing LaBranche contract." This adjustment was
12 made in response to a letter from the Board addressing the fact that the Company did not
13 file its contract with LaBranche in a timely fashion. The board determined that the costs
14 for the difference between the General Commercial Rate and the contract rate should be
15 borne by the company's shareholders rather than the customers. Consequently, the
16 Company made the adjustment to increase revenues by \$1,463. However, the Company's
17 response to the Department's Eighth Set of Formal Information Requests, Data Request
18 No. 38, indicates that: "The adjustment was made to residential revenue in error. It
19 should have been made as a commercial revenue adjustment." My recommended
20 adjustments to revenues are presented on Schedule C-1. In that schedule, I reflect the
21 LaBranche contract adjustment in the Commercial Revenue line instead of the Residential
22 Revenue line.

1 Q. THE COMPANY'S FILING ALSO CONTAINS SEVERAL ADJUSTMENTS TO
2 REDUCE REVENUES FOR UNBILLED REVENUES. IS THIS APPROPRIATE?

3 A. No, it is not. The Company's proposed adjustment for unbilled revenues would result in a
4 mismatch in the test year in this case. In response to the Department formal data request
5 5-32, the Company indicates that its unbilled revenue adjustment "...reduces sales to the
6 mid-December 1999 cycle billing through the mid-December 2000 cycle billing." The
7 Company indicates that the adjustment is done to reflect as billed information in the rate
8 filing. This results in a serious mismatch. Test year expenses are based on amounts
9 recorded for the period January 1, 2000 through December 31, 2000. Rate base is based
10 on an average using December 31, 1999 and December 31, 2000 balances. The
11 Company's apparent proposal to base revenues on the amount of sales for the period mid-
12 December 1999 through mid-December 2000 results in a mismatch of the basic
13 components of the revenue requirement calculation.

14
15 Q. IS THERE AN ADDITIONAL REASON THAT THE COMPANY'S PROPOSED
16 UNBILLED REVENUE ADJUSTMENT SHOULD BE DENIED?

17 A. Yes. The Company's adjustment was calculated by determining the difference between
18 the unbilled revenue balance as of December 31, 2000 and the unbilled revenue balance as
19 of December 31, 1999 and removing the difference. As the unbilled revenue as of
20 December 31, 2000 was higher than the prior year balance, the Company reduced
21 revenues in its filing by \$137,713. The adjustment ignores the two underlying causes for
22 the unbilled revenues being higher as of December 31, 2000. One would expect unbilled

1 revenues to be higher at the end of the test year due to both customer growth that
2 occurred during the year and due to the rate increase from Docket 6332 that went into
3 effect in February 2000. The Company's adjustment would effectively remove part of the
4 actual test year customer growth that occurred. It causes an additional mismatch because
5 of the different rates that were in effect for each of those periods.

6
7 Q. HOW DO YOU PROPOSE THAT REVENUES IN THIS CASE BE CALCULATED?

8 A. In Schedule E.3 of its filing, the Company prepared a billing analysis by customer class
9 based on actual billing units and the rates that are currently in effect. I recommend that
10 the amount presented in Company Schedule E.3 be the starting point in calculating the test
11 year revenues in this case. Use of Schedule E.3 would cause rates to be determined based
12 on the actual billing units and a full year impact of the rates that went into effect in mid-
13 February 2000.

14
15 Q. DID YOU ASK THE COMPANY WHY THE REVENUES CALCULATED ON
16 SCHEDULE E.3 SHOULD NOT BE USED IN CALCULATING THE REVENUE
17 REQUIREMENT?

18 A. Yes. The Company was asked this question in Department formal data requests 8-35 and
19 9-1 for the residential and commercial customer classes. The Company's response was
20 that the amounts in Schedule E.3 "...assumes that all customers were on line and receiving
21 service for the full year, that there are no partial bills and that no adjustments to customer
22 bills were needed." In other words, the response is stating that Schedule E.3 revenue

1 calculations, which multiply billing units by the applicable rates, are not the same as
2 recorded revenue because the calculations ignore partial billings and bill adjustments. The
3 responses do not explain why it is not appropriate to assume, on a going forward basis,
4 that the units sold multiplied by the applicable rates is not appropriate. Company
5 Schedule E.3 reflects an annual number of billing units at present rates to be used as a
6 starting point in the revenue calculation.

7
8 Q. YOU STATED THAT COMPANY SCHEDULE E.3 REFLECTS AN ANNUAL
9 NUMBER OF BILLING UNITS. WHY THEN IS IT A STARTING POINT IN THE
10 REVENUE CALCULATION?

11 A. In response to Department formal data requests 8-36 and 9-2, the Company indicated that
12 the billing units contained in Schedule E.3 are based on "...actual 12 months of meter
13 reads in 2000, which includes some days in December 1999, and does not include some
14 days of December 2000." In other words, the billing units used in calculating the revenue
15 at present rates in Company Schedule E.3 is based on actual meter reads and billings in
16 2000, that reflect some usage from 1999, but excludes some actual usage in 2000. This is
17 why at each year end there is an adjustment to the books for unbilled revenue. The
18 adjustment for unbilled revenue recognizes the difference between the 1999 usage billed in
19 2000 and the unbilled usage in 2000. The Company inappropriately removed this
20 differential from the revenues reflected in the filing. As part of my adjustment, I am
21 putting the unbilled revenues back in to reflect revenue that is based on calendar 2000
22 billing units.

1 Q. HAVE YOU PREPARED A SCHEDULE SHOWING YOUR PROPOSED REVENUE
2 ADJUSTMENT?

3 A. Yes. My recommended adjustments to the Company's revenues are presented on
4 Schedule C-1. The starting point in my schedule is the 2000 revenue at current rates and
5 actual 2000 billing determinants, as provided by the Company on Schedule E.3 of its
6 filing. I increased the amount of commercial revenues for the \$1,463 associated with the
7 Company's delay in renewing the LaBranche contract. Since the Company indicated that
8 the amounts presented in its Schedule E.3 are based on actual meter reads, thereby
9 resulting in revenues for the period from mid-December 1999 through mid-December
10 2000, I then increased these actual billing determinant amounts by the change in the
11 unbilled revenues between December 31, 1999 and December 31, 2000. By doing this, I
12 have effectively removed the unbilled revenues as of December 31, 1999 (1999 revenues)
13 and added back in the unbilled revenues at December 31, 2000 (2000 revenues). This
14 results in the revenues in this case being based on actual 2000 sales and on the rates that
15 are currently in effect. I then calculated the difference between my recommended
16 revenues based on actual 2000 sales and current rates and the revenues used by the
17 Company in its filing. As shown on line 5 of this schedule, revenues should be increased
18 by \$739,082.

1 SAO Cost

2 Q. DID YOU REVIEW THE COMPANY'S REQUEST FOR COSTS CHARGED FROM
3 THE STAMFORD ADMINISTRATIVE OFFICE TO THE VED?

4 A. Yes. Company Exhibit-CCC-RJM-01 indicates that \$311,104 of Stamford Administrative
5 Office (SAO) costs are included in this rate proceeding. The costs are purportedly based
6 on the 2001 budget and reflect the impact of changes to cost allocations associated with
7 pending sales and purchases of telecommunication operations. In addition, I received and
8 reviewed two volumes of Company Witness Raymond Mason's workpapers.

9
10 Q. DO YOU CONSIDER THE COSTS REQUESTED REASONABLE?

11 A. No. There are concerns with how the VED distributed costs were determined.
12 Additionally, I recommend that specific budgeted amounts be removed from the \$311,104
13 requested.

14
15 Q. WHAT CONCERNS DO YOU HAVE WITH THE CALCULATION OF THE
16 DISTRIBUTION COSTS?

17 A. On Schedule C-2, I present available information of the Company's calculation of the
18 requested allocated costs. As shown in Column "A" of my Schedule C-2, page 2, line 1,
19 the Company's calculation starts with the total SAO system budget. The Company
20 workpapers included various amounts of detail to which the total system amount could be
21 identified. Next, as presented on line 2, the Company identified the VED cost distribution
22 for 2001 to be \$578,159. The source of this amount could not be located and is a

1 concern. Line 3 of the calculation simply indicates that line 2 is 1.48% of line 1. Line 6
2 reflects the impact of the change to the 4-factor allocator as a result of the pending sales
3 and purchases of telecommunication operations. Line 7 reflects the 2001-VED SAO cost
4 distribution as adjusted for the change in the 4-factor allocator. Next, the Company
5 adjusts the VED distributed costs for items that were previously not allowed or were
6 contentious items in a prior docket. This part of the Company's calculation causes
7 additional concern.

8
9 Although the \$19,978,453 of total costs for which a portion is being allocated to VED are
10 identifiable to amounts included in the total system budget of \$38,193,041, the method of
11 determining the VED portion is not consistent. As shown in Column "C", the adjustment
12 for previously denied or contentious items would be \$228,097 if calculated in a consistent
13 manner. This represents a difference of \$120,213, which is considered to be significant.

14
15 Another concern is the calculated costs are not consistent with the method utilized for
16 projecting the PSO and DAO costs allocated to the VED. Those pro forma costs were
17 based on annualized year-to-date 2001 costs. If the SAO cost were annualized based on
18 April 2001 year-to-date expense of \$89,721, the pro forma expense would be \$269,163.
19 That is significantly less than the \$446,040 used by the Company in its filing.

20
21 Q. ARE YOU MAKING AN ADJUSTMENT TO SAO EXPENSE FOR THE
22 CALCULATION DIFFERENCE?

1 A. Not at this time. If after further inquiry and review I determine there is no rationale for
2 the different methods of calculation, I will make the necessary adjustments.

3
4 Q. WHAT SPECIFIC BUDGET AMOUNTS ARE YOU RECOMMENDING BE
5 REMOVED FROM THE TEST YEAR?

6 A. First, I agree the costs removed by the Company should be removed. In addition, I am
7 recommending the removal of executive salaries (inclusive of Leonard Tow), Mr. Tow's
8 legal expense, the legal cost associated with Mr. Avery's suit against Citizens, travel
9 expenses of Mr. Tow, Mr. Tow's credit cards, unidentified new hires and the cost
10 associated with mergers and acquisitions. The respective total Company costs for each of
11 these items is listed on Schedule C-2, page 1. The costs in question have no identifiable
12 benefit for Vermont ratepayers and/or are not known and measurable.

13
14 Q. DID YOU INQUIRE FURTHER ON ANY OF THESE COSTS?

15 A. Yes. DPS 2-6 asked why some of these costs should be charged to VED ratepayers. The
16 response by Mr. Mason stated that the legal expenses of Mr. Tow and the cost associated
17 with Mr. Avery's suit are "reasonable and exclusion of these costs from the budget basis is
18 not warranted in the opinion of this witness." That is not sufficient justification for
19 including the cost in Vermont rates. With respect to the new hires in cost center 70552,
20 Mr. Mason simply stated, "The positions were all filled before December 30, 2000." The
21 response was not sufficient justification for including the costs in question.

1 DAO Expense

2 Q. WHY ARE YOU ADJUSTING THE DALLAS ADMINISTRATIVE OFFICE
3 EXPENSES CHARGED TO THE VED?

4 A. The Company calculated its pro forma Dallas Administrative Office (DAO) expense based
5 on the purported August 2001 year-to-date actual. The supporting detail included in the
6 workpapers is for the year-to-date April 2001. Its worth noting that the SAO pro forma
7 expense is based on the 2001 budget, the PSO pro forma expense is based on April 2001
8 actual being annualized, and the DAO is purportedly based on August 2001 actual being
9 annualized. No consistency exists between the three calculations and no rationale has
10 been provided to justify the smorgasbord approach. To include some consistency, I have
11 recalculated the DAO annualized pro forma expense using the actual November 2001
12 information supplied by the Company in response to DPS 2-9.

13
14 Q. WHAT IS THE AMOUNT OF YOUR ADJUSTMENT TO THE DAO PRO FORMA
15 EXPENSE?

16 A. As shown on Schedule C-3, the annualization adjustment should be \$5,588. In addition,
17 the Company has agreed in response to DPS 8-14 that the annualized expense should be
18 adjusted for \$14,880 of depreciation. As shown on line 10, the total DAO pro forma
19 expense adjustment is \$20,468.

1 PSO Expense

2 Q. WHAT ADJUSTMENT ARE YOU MAKING TO PSO EXPENSES ALLOCATED TO
3 THE VED?

4 A. As shown on Schedule C-4, I have reduced the Company's pro forma expense by
5 \$83,811.

6
7 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

8 A. Consistent with the DAO calculation, I annualized the year-to-date November 2001
9 expense of \$179,561. The November 2001 year-to-date is a more known and measurable
10 amount and, when annualized, will better reflect an annual expense level than the April
11 2001 amount utilized by the Company. The annualization adjustment reduced expense
12 \$76,466. In addition, the Company, in response to DPS 8-14, has agreed that the
13 annualized expense should be reduced for \$7,345 of depreciation. The total PSO pro
14 forma expense reduction is \$83,811.

15
16 Rate Case Expense

17 Q. DID YOU ANALYZE THE COMPANY'S REQUEST FOR RATE CASE EXPENSE?

18 A. Yes. Based on my review, I recommend a \$87,112 reduction to the proposed expense
19 level.

20
21 Q. WHY IS AN ADJUSTMENT TO RATE CASE EXPENSE NECESSARY?

22 A. First, costs associated with Docket No. 6332 should be removed. Second, the proposed

1 amounts for the current case include excessive estimates, inflated internal pay rates, and
2 costs that are not necessary or of benefit to ratepayers.

3
4 Q. WHY ARE YOU REMOVING THE RATE CASE EXPENSE FOR DOCKET NO.
5 6332?

6 A. The Company's rates from Docket No. 6332 went into effect in February 2000. At that
7 time, the Company should, at a minimum, have begun to amortize the rate case expense
8 on its books. The \$172,096 requested by the Company for Docket No. 6332 is not
9 included in my recommended costs to be amortized for this rate proceeding. The
10 Stipulation in that case did not include a provision for recovery or deferral of the costs
11 associated with that case.

12
13 Q. DID THE COMPANY REQUEST OR RECEIVE PERMISSION TO DEFER DOCKET
14 NO. 6332 RATE CASE COSTS FOR FUTURE RECOVERY?

15 A. No. The Company's rationale for recovery in this proceeding was provided in response to
16 DPS 8-26 as follows:

17 Normally, the regulatory costs associated with a rate case are included in the case
18 itself. The 1998-99 case focused on raising rates to cover only two types of costs,
19 DSM and Storm costs. Thus the regulatory costs were extraordinary, non-
20 recurring costs which are appropriately amortized over a several year period.
21

22 As stated earlier, the Company is fully cognizant of why it is necessary and/or important to
23 request an accounting order. An assumption that it would be appropriate to defer costs
24 for future recovery is not justification for ignoring standards established for the deferral of

1 costs. In addition, Docket No. 6332 modified rates established by the Order in Docket
2 No. 5841/5859. This modification increased rates for recovery of storm costs and DSM
3 costs. Essentially, that means the costs in Docket No. 5841/5859 continued to be
4 recovered. In Docket No. 5841/5859 the Company was allowed recovery of \$44,581 on
5 an annual basis for rate case costs. This fact, coupled with the fact that had amortization
6 begun when rates went into effect in 2000, the amortization of those costs would have
7 been almost been completed when new rates are projected to go into effect, is sufficient
8 justification for disallowing recovery of the costs.

9
10 Q. WHAT OTHER ADJUSTMENTS HAVE YOU MADE TO THE COMPANY'S
11 REQUEST FOR RATE CASE EXPENSE?

12 A. On Schedule C-5, line 1, I reduced the Company's estimate for additional legal expense
13 from \$100,000 to \$75,000. Both amounts for line 1, as provided by the Company, are
14 estimates. No justification exists for the estimates. Legal bills provided were redacted, so
15 no means of testing the reasonableness of the estimates exists. Actual review of bills is
16 necessary to determine that there are no probation costs charged above the line. Since
17 evidence has not been provided that would justify the \$150,000 that I am including, the
18 Board may want to consider reducing or eliminating the expense entirely.

19
20 On line 4 of Column "C," I have included the actual expenses paid for project management
21 of \$65,939 based on the response to DPS 5-47. This is an increase of \$1,939. However,
22 in Column "D," I am only estimating an additional \$10,000 for completion of work on this

1 proceeding which is \$15,300 less than the Company's estimate of \$25,300.

2
3 I have not reflected any cost on lines 5 and 18 for "Case Analysis & Witness Training."

4 The Company has requested \$24,000 for this item. The Company has included the cost of
5 professional witnesses and experienced Company witnesses, therefore, the added cost for
6 training is not justified.

7
8 The internal services costs on lines 8 through 12 have been adjusted based on the
9 individual's actual pay rates plus a 24.6% benefit rate. It is not appropriate for Citizens to
10 charge Vermont ratepayers at a cost plus rate for work on rate proceedings. The
11 estimated billing rates utilized by the Company are not justified.

12
13 Q. WHAT IS THE TOTAL ESTIMATED RATE CASE EXPENSE FOR THIS
14 PROCEEDING?

15 A. As shown on Schedule C-5, I have estimated rate case expense to be \$603,661.
16 Amortized over three years, results in annual expense of \$201,220, which is \$87,112 less
17 than the Company's requested amount of \$288,322.

18
19 Legal and Regulatory

20 Q. WHY ARE YOU REMOVING THE LEGAL AND REGULATORY EXPENSE?

21 A. The validity of the \$240,667 is in question. The actual test year expense, as shown on
22 Schedule C, line 20, is \$1,624,258. Based on the FERC Form 1 this consisted of the

following:

Amortization Approved Docket No. 6332	\$1,580,250
Various Docket Expenses	43,863
Unidentified	<u>145</u>
Total	<u>\$1,624,258</u>

On Company Schedule C1.10 the \$1,580,250 is removed because it is reflected elsewhere in the filing. An adjustment of \$21,508 is made by the Company, reducing the \$48,863 to \$27,355. This adjustment is made because the costs are not going to be incurred after 2002. That would leave a total of \$27,500 in the account. The Company then increases the account balance with two items identified as reversals. The first entry, for \$214,959, is labeled as a reversal of an over-accrual for the T&D Audit. First, if an over-accrual occurred the reversal would be a credit, reducing expense, not the increase as reflected by the Company. Next, the response to DPS Informal Request No. 38 indicates that T&D accruals were made in 1997 and 1998. That would mean an entry associated with them is out of period and not appropriate. Finally, T&D Audit costs are to be below the line so that means the entry is not appropriate. The remaining costs to the extent they relate to legal invoices are considered to be unsupported.

Q. WHY DO YOU CONSIDER THE LEGAL COSTS TO BE UNSUPPORTED?

A. The charges for legal services could be appropriate, or they could be probation costs that should be below the line. Since the Company refused requests for review of legal bills we are not able to analyze the services billed for to make any determination as to whether

1 costs have been properly charged. A redacted bill provides no support for costs being
2 included in rates, especially in the circumstances of this case. The removal of costs not
3 supported by Company documentation is appropriate. There is no justification for the
4 \$240,667.

5
6 Income Tax Expense

7 Q. HAVE YOU REFLECTED THE IMPACT OF YOUR RECOMMENDED
8 ADJUSTMENT ON RATE CASE EXPENSE?

9 A. Yes. The necessary adjustments to State and federal income tax expense are presented on
10 Schedule C-6.

11
12 Tree Trimming

13 Q. WHY ARE YOU REDUCING TREE TRIMMING EXPENSE?

14 A. The Company's 2000 variance report explained that an increase in transmission and
15 distribution expense was due, in part, to an increase of tree trimming expense of \$395,000.
16 In 1999 the Company expensed \$226,000 for the trimming. In 2000 the expense
17 increased to \$621,000. As of October 2001 the Company had expensed \$508,000. In
18 response to DPS 9-16, the Company has indicated that it plans to expend \$550,000 a year
19 for tree trimming. The difference between the \$621,000 in the test year and the \$550,000
20 for future trimming expense is a \$71,000 reduction.

21
22 Q. IS THE COMPANY'S \$550,000 ESTIMATE REASONABLE?

1 A. It may be a little high based on the average for the years 1999 - 2001, of approximately
2 \$486,000. The Board may wish to apply a five-year average since that has been the
3 standard typically applied in Vermont. In that case additional cost information for 1997,
4 1998 and the actual for 2001 would be required.

5
6 Q. DOES THIS COMPLETE YOUR TESTIMONY?

7 A. Yes, at this time. However, there are still several data requests under review, along with
8 further clarification needed of information recently received. Consequently, I reserve the
9 right to supplement this testimony upon further evaluation of the additional information.

Citizens Communications Company
Vermont Electric Division
Test Year Ended December 31, 2000

Docket No. 6596
Exhibit DPS-HWS-1
Schedule A

Revenue Requirement Summary

Line No.	Description	Company Adjusted Amount	DPS Adjustments	Per DPS Adjusted Balance	Revenue Increase	At DPS Proposed Rates	Column (B) Reference:
		(A)	(B)	(C)	(D)	(E)	
1	Operating Revenue	27,979,471	739,082	28,718,553	423,374	29,141,927	Schedule C
	Expenses:						
2	Operation & Maintenance Expense	26,825,625	(5,900,971)	20,924,654	3,260	20,927,914	Schedule C
3	Depreciation Expense	1,975,524	(161,843)	1,813,681		1,813,681	Schedule C
4	Amortization Expense	3,413,026	(583,245)	2,829,781		2,829,781	Schedule C
5	Taxes Other Than Income	1,315,491		1,315,491	4,314	1,319,805	Schedule C
6	Total Expenses Before Income Taxes	33,529,666		26,883,606	7,574	26,891,180	
	Income Taxes:						
7	State Income Tax	(657,679)	741,482	83,803	40,541	124,344	
8	Federal Income Tax	(2,130,712)	2,402,213	271,501	131,341	402,842	
9	Amort ITC/RSGM	(43,199)		(43,199)		(43,199)	
10	Total Operating Expenses	30,698,076		27,195,711	179,456	27,375,167	
11	Net Income	(2,718,605)		1,522,842	243,918	1,766,760	
12	Rate Base	37,409,495	(9,932,651)	27,476,844		27,476,844	Schedule B
13	Rate of Return	-7.27%		5.54%		6.43%	Schedule D
	Per DPS Revenue Increase Calculation:	Per Co.	Per DPS				
14	Rate Base	37,409,495	27,476,844				
15	Rate of Return Required	9.23%	6.43%	Schedule D			
16	Net Operating Income Requirement	3,452,896	1,766,761				
17	Operating Revenue at Present Rates	(2,718,605)	1,522,842				
18	Net Operating Increase Required	6,171,501	243,919				
19	Gross Revenue Conversion Factor	1.735716	1.735716	Co. Sch. A.2			
20	Revenue Increase Required	10,711,973	423,374				

Summary of Rate Base

Line No.	Description	Per Co. Adjusted Balance (A)	DPS Adjustments (B)	Adjusted Rate Base (C)	Col. (B) Reference:
Utility Plant in Service:					
1	Utility Plant in Service	60,586,137	(861,164)	59,724,973	Page 2
2	Accumulated Depreciation	(23,922,299)	(5,950,952)	(29,873,251)	Page 2
3	Net Utility Plant in Service	<u>36,663,838</u>		<u>29,851,722</u>	
Other Components:					
4	Contributions In Aid of Construction	(6,625,796)		(6,625,796)	
5	Deferred Income Taxes	(4,360,572)	(581,342)	(4,941,914)	Testimony
6	Materials & Supplies	283,964		283,964	
7	Allowance for Working Capital	1,509,144	(282,689)	1,226,455	Schedule B-5
8	Pre 1999 DSM Settlement	3,541,698		3,541,698	
9	Unamort. 1998 Ice Storm Costs	1,126,276		1,126,276	
10	1999 Wind Storm & Hurricane Floyd	405,176	(405,176)	-	Schedule B-3
11	Unamort. PCB Costs	833,695	(833,695)	-	Schedule B-3
12	Post 1998 DSM Costs	3,082,520	(417,480)	2,665,040	Schedule B-3
13	Unamort. IRP 20-Year Plan	352,225	(101,207)	251,018	Schedule B-3
14	Y2K Costs	143,381		143,381	
15	HQ Arbitration Costs	453,946	(453,946)	-	Schedule B-3
16	Storm Reserve		(45,000)	(45,000)	Schedule B-4
17	Total Rate Base	<u>37,409,495</u>		<u>27,476,844</u>	

Source/Notes:

Col. (A) amounts from Company Schedule B

Schedule of Adjustments to Rate Base

Line No.	Description	Amount	Reference:
<u>Adjustments to Plant in Service</u>			
1	Remove Over-Depreciated Plant	(861,164)	Schedule B-2
2	<i>Total Adjustments to Plant in Service</i>	<u>(861,164)</u>	
<u>Adjustments to Accumulated Depreciation:</u>			
3	Recognize Interim Period Depreciation	(4,548,839)	Schedule B-1
4	Remove Over-Depreciated Plant	811,445	Schedule B-2
	Recognize Rate Year Depreciation	<u>(2,213,558)</u>	Schedule B-1
5	<i>Total Adjustments to Accumulated Depreciation</i>	<u>(5,950,952)</u>	
<u>Adjustments to Reserve for Deferred Income Taxes:</u>			
6	Reverse Company T&D Audit Adjustment	(581,342)	Testimony
7	<i>Total Adjustments to Reserve for Deferred Income Taxes</i>	<u>(581,342)</u>	
<u>Adjustments for Deferred Expenses:</u>			
8	Post 1998 DSM Costs	(417,480)	Schedule B-3
9	IRP Costs	(101,207)	Schedule B-3
10	PCB Costs	(833,695)	Schedule B-3
11	1999 Storm Costs	(405,176)	Schedule B-3
12	Storm Recovery Mechanism	(45,000)	Schedule B-4
13	HQ Participation Agreement	<u>(453,946)</u>	Schedule B-3
14	<i>Total Adjustments to Deferred Expenses</i>	<u>(2,256,504)</u>	
<u>Adjustment for Working Capital</u>			
15	Working Capital Impact from Expense Adjustments	(282,689)	Schedule B-5

Citizens Communications Company
Vermont Electric Division
Test Year Ended December 31, 2000

Docket No. 6596
Exhibit DPS-HWS-1
Schedule B-1

Accumulated Depreciation Adjustment

Line No.	Description	Amount	Reference
	<u>Interim Year Adjustment</u>		
1	Average Accumulated Depreciation Per Company	<u>23,922,299</u>	a
2	Accumulated Depreciation December 31, 2000	25,857,704	b
3	2001 Depreciation, January 1, thru June 30	<u>1,306,717</u>	c
4	<i>Accumulated Depreciation at June 30, 2001</i>	<u>27,164,421</u>	(L.2+L.3)
5	2001 Depreciation, July 1 - December 31, 2001	1,306,717	c
6	2002 Depreciation, January 1 Thru June 30	<u>1,306,717</u>	c
7	<i>Accumulated Depreciation at June 30, 2002</i>	<u>29,777,855</u>	(L.4+L.5+L.6)
8	Average Interim Year Accumulated Depreciation	<u>28,471,138</u>	(L.4+L.7)/2
9	Increase to Accumulated Depreciation (Line 1 - Line 8)	<u>(4,548,839)</u>	
	<u>Rate Year Adjustment</u>		
10	Rate Year Depreciation	<u>1,813,681</u>	d
11	<i>Accumulated Depreciation at June 30, 2003</i>	<u>31,591,536</u>	(L.7+L.10)
12	Average Rate Year Accumulated Depreciation	<u>30,684,696</u>	(L.7+L.11)/2
13	Increase to Accumulated Depreciation (Line 8 - Line 12)	<u>(2,213,558)</u>	

Source: (a) Is from Company Schedule B.
(b) Is from Company Schedule B.2.
(c) Is based on the Company's response to Informal Request No. 2.
(d) Is from Schedule C, Line 33.

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Schedule B-2
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Overstated General Plant Adjustment

Line No.	Description	Plant Cost (A)	Decrease Accumulated Depreciation (B)	Reference
1	Account 391.1 - Computer Equipment	(809,268)	(776,220)	Page 2 of 3
2	Account 397 - Communication Equipment	<u>(51,896)</u>	<u>(35,225)</u>	Page 3 of 3
3	Adjustment Total	<u><u>(861,164)</u></u>	<u><u>(811,445)</u></u>	

Overstated General Plant Adjustment

Line No.	Description	12/31/1999 (A)	12/31/2000 (B)	Average (C)
1	Account 391.1 - Computer Equipment	1,659,638	1,681,260	1,670,449
2	Assets No Longer Used & Useful	(809,268)	(809,268)	(809,268)
3		<u>850,370</u>	<u>871,992</u>	<u>861,181</u>
4	Accumulated Depreciation - Comp. Equip.	1,256,893	1,621,553	1,439,223
5	Assets No Longer Used & Useful	(773,699)	(778,740)	(776,220)
6		<u>483,194</u>	<u>842,813</u>	<u>663,004</u>
7	2001 Depreciation		<u>364,661</u>	
8	Accumulated Depreciation - Comp. Equip. @ 12/31/01		<u>1,207,474</u>	

	Item No.	Cost	Actual Accum. Depr.	Amount
9	Accum. Deprec. Adjustment Per Company			809,268
10	1643146	3,390	2,436	(954)
11	1649221	2,049	1,797	(252)
12	1649234	7,250	6,365	(885)
13	1649239	429	376	(53)
14	1649240	37	33	(4)
15	1949288	626	549	(77)
16	3044065	3,379	955	(2,424)
17	3044084	25,147	7,105	(18,042)
18	3080420	8,890	1,053	(7,837)
19	Actual Accumulated Depreciation @ 12/31/00			<u>778,740</u>
20	Estimated 1999 Depreciation on Above Items			<u>(5,041)</u>
21	Estimated Accumulated Depreciation @ 12/31/99			<u>773,699</u>

Source: December 31, 2000 amounts are from Company response to Informal Request 26.
Lines 2 and 9 are from Company response to DPS 2-16.

Overstated General Plant Adjustment

Line No.	Description	12/31/1999 (A)	12/31/2000 (B)	Average (C)
1	Account 397 - Communication Equipment	571,545	589,826	580,686
2	Assets No Longer Used & Useful	<u>(51,896)</u>	<u>(51,896)</u>	<u>(51,896)</u>
3		<u>519,649</u>	<u>537,930</u>	<u>528,790</u>
4	Accumulated Depreciation - Comp. Equip.	114,102	135,647	124,875
5	Assets No Longer Used & Useful	<u>(30,326)</u>	<u>(40,124)</u>	<u>(35,225)</u>
6		<u>83,776</u>	<u>95,523</u>	<u>89,649</u>
	Item No.	Two-Way Radio	Cost	Actual Accum. Depr.
7	1602150		1,208	1,208
8	1602496		190	190
9	1602957	x	110	110
10	1604914/5	x	2,385	2,385
11	1605567	x	331	331
12	1606360		1,832	1,832
13	1607092	x	685	685
14	1608094		558	549
15	1609025		2,494	2,324
16	1610187/8		981	861
17	1610190/3		5,027	4,420
18	1611360/1	x	4,955	4,098
19	1612586		993	769
20	1613739/40		17,074	12,327
21	1613742/3		1,766	1,275
22	1614849		962	644
23	1614851		5,194	3,477
24	1619693	x	3,606	1,848
25	1619695		<u>1,545</u>	<u>791</u>
26	Actual Cost & Accumulated Depreciation @ 12/31/00		<u>51,896</u>	40,124
27	Estimated 2000 Depreciation on Above Items			<u>(9,798)</u>
28	Estimated Accumulated Depreciation @ 12/31/99			<u>30,326</u>
29	Depreciation Expense Adjustment @ 3.12%		<u>51,896</u>	<u>1,619</u>

Source: December 31, 2000 amounts are from Company response to Informal Request 26.
Line 29 is based on the Company response to DPS 8-13.

Deferred Cost Adjustments

Line No.	Description	Per DPS (A)	Per Co. (B)	Adjustment (C)	Reference
<u>IRP Costs</u>					
1	Outside Consultants	311,838	438,347	(126,509)	Testimony
2	Office Supplies	1,934	1,934	-	
3	Internal Payroll	-	-	-	
4	Total	313,772	440,281	(126,509)	
5	Less: Amortization	62,754	88,056	(25,302)	Testimony
6	Unamortized Rate Base Balance	251,018	352,225	(101,207)	Testimony
<u>PCB Costs</u>					
7	PCB Costs Deferred	-	833,695	(833,695)	Testimony
8	Amortization	-	208,424	(208,424)	Testimony
<u>1999 Storm Costs</u>					
9	Storm Costs Deferred	-	405,176	(405,176)	Testimony
10	Amortization	-	101,294	(101,294)	Testimony
<u>HQ Participation Agreement</u>					
11	HQ Net Arbitration Costs Deferred	-	453,946	(453,946)	Testimony
12	Amortization	56,743	113,487	(56,744)	Testimony
<u>Post 1998 DSM</u>					
13	Post 1998 DSM Costs	2,665,040	3,082,520	(417,480)	a
14	Amortization	666,260	770,630	(104,370)	a

Source: (a) Based on testimony of Kathryn Parlin.

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Schedule B-4

Deferred Storm Cost Adjustment

Line No.	Description	Per Co. (A)	Payroll Adjustment (B)	Per DPS (C)	Reference
1	1996 Costs	14,932	(14,932)	-	a
2	1997 Costs	9,994	(9,994)	-	a
3	1998 Costs	38,087	(38,087)	-	a
4	1999 Costs	506,475	(56,677)	449,798	a
5	2000 Costs	-	-	-	a
6	Five Year Total			<u>449,798</u>	
7	Five Year Average			<u>89,960</u>	(L.6 / L.5)
8	Recommended Accrual			90,000	
9	Company Requested Accrual			<u>100,000</u>	b
10	Storm Recovery Mechanism Adjustment			<u>(10,000)</u>	(L.8 - L.9)
11	Deferred Credit			<u>45,000</u>	c

Source: (a) Amounts are from Company response to DPS 5-40.
(b) Amount is from Company Schedule C.1.3.
(c) Amount is 50% of line 8.

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Schedule B-5

Deferred Storm Cost Adjustment

Line No.	Description	Test Year Expense (A)	Factor (B)	Working Capital Requirement (C)	Reference
1	Proforma Purchased Power	15,990,786	0.041667	666,288	a
2	O&M Expenses Less Purchased Power	4,933,867	0.125000	<u>616,733</u>	a
3	Working Capital for Expenses			1,283,021	
4	Customer Deposits			(44,684)	b
5	Uncashed Refund Checks			<u>(11,882)</u>	b
6	Total Working Capital Requirement			1,226,455	
7	Total Working Capital Requirement Per Company			<u>1,509,144</u>	b
8	Working Capital Adjustment			<u><u>(282,689)</u></u>	

Source: (a) Expense amount from Schedule C and factors are from Company Schedule B.6.
(b) Company Schedule B.6.

Schedule of Adjustments to Operating Income

Line No.	Description	Per Co. Adjusted Balance (A)	DPS Adjustments (B)	DPS Adjusted Balance (C)
Revenues:				
1	Residential	12,338,713	327,781	12,666,494
2	Commercial	6,231,268	188,779	6,420,047
3	Industrial	7,205,923	185,629	7,391,552
4	Street Light	211,693	968	212,661
5	Public Authority	629,103	35,925	665,028
6	Residential Dusk to Dawn Lights	79,562		79,562
7	Commercial Dusk to Dawn Lights	61,018		61,018
8	Public Authority Dusk to Dawn	8,500		8,500
9	Wheeling Revenues	1,059,136		1,059,136
10	Rental Income	2,814		2,814
11	Other Revenue	151,741		151,741
12	Total Revenues	27,979,471	739,082	28,718,553
Operation & Maintenance Expense:				
13	Salaries & Wages	2,005,452		2,005,452
14	Materials & Services	1,136,610	(71,000)	1,065,610
15	Purchased Power	21,450,000	(5,459,214)	15,990,786
16	Uncollectible	142,989		142,989
17	Customer Accounting Misc.	306,373		306,373
18	Advertising & Misc.	-		-
19	Administrative Office Expenses	608,400	(120,090)	488,310
20	Legal & Regulatory	240,667	(240,667)	-
21	Insurance	22,771		22,771
22	Injuries & Damages	62,761		62,761
23	Welfare & Pensions	493,363		493,363
24	Rents	84		84
25	Telephone	104,503		104,503
26	Miscellaneous & Per Diem	251,651	(10,000)	241,651
27	Total O&M Expense	26,825,624	(5,900,971)	20,924,653
Taxes Other Than Income:				
28	Payroll Taxes	140,391		140,391
29	Weatherization/Gross Receipts Tax	131,836		131,836
30	State Gross Revenue Tax	147,975		147,975
31	Property Tax	895,289		895,289
32	Total Taxes Other Than Income	1,315,491		1,315,491
33	Depreciation Expense	1,975,524	(161,843)	1,813,681
Amortization:				
34	Extraordinary Storm Costs	435,978		435,978
35	IRP Twenty Year Plan	88,056	(25,302)	62,754
36	Pre 1999 DSM Costs	1,370,980		1,370,980
37	Post 1998 DSM Costs	770,630	(104,370)	666,260
38	PCB Costs Removed from Plant	208,424	(208,424)	-
39	Y2K Costs	35,845		35,845
40	HQ Part Agreement	113,487	(56,744)	56,743
41	1999 Storm & Hurricane Floyd	101,294	(101,294)	-
42	Rate Case Expense	288,332	(87,112)	201,220
43	Total Amortization Expense	3,413,026	(583,245)	2,829,781
44	Total Expenses Before Income Taxes	33,529,665	(6,646,060)	26,883,605
45	State Income Taxes	(657,679)	741,482	83,803
46	Federal Income Taxes	(2,130,712)	2,402,213	271,501
47	Amortization ITC/RSGM	(43,199)		(43,199)
48	Total Income Tax Expense	(2,831,590)	3,143,695	312,105
49	Total Expenses	30,698,075	(3,502,365)	27,195,710
50	Net Operating Income	(2,718,604)	4,241,447	1,522,843

Schedule of Adjustments to Operating Income

Line No.	Description	Schedule Reference	Category	Amount
<u>Adjustments to Revenue:</u>				
1	Residential	Schedule C-1	Residential	327,781
2	Commercial	Schedule C-1	Commercial	188,779
3	Industrial	Schedule C-1	Industrial	185,629
4	Public Authority	Schedule C-1	Public Authority	35,925
5	Street Light	Schedule C-1	Street Lights	968
6	<i>Total Revenue Adjustments</i>			<u>\$739,082</u>
<u>Adjustments to Expenses:</u>				
7	Purchase Power Expense	(A)	Purchase Power	(1,659,214)
8	Hydro Quebec Purchase Power Expense	(B)	Purchase Power	(3,800,000)
9	SAO Expense Adjustment	Schedule C-2	Admin. Office	(15,811)
10	DAO Expense Adjustment	Schedule C-3	Admin. Office	(20,468)
11	PSO Expense Adjustment	Schedule C-4	Admin. Office	(83,811)
12	Remove VED Legal Expense	Testimony	Legal & Reg.	(240,667)
13	Rate Case Expense Adjustment	Schedule C-5	Rate Case Exp.	(87,112)
14	Depreciation Expense-Computer Equip.	Testimony	Depreciation	(160,224)
16	Depreciation Expense-Comm. Equip.	Schedule B-2	Depreciation	(1,619)
17	Amortization Expense-IRP Costs	Schedule B-3	IRP 20-Year Plan	(25,302)
18	Amortization Expense-PBC Costs	Schedule B-3	PCB Costs	(208,424)
19	Amortization Expense-1999 Storm Costs	Schedule B-3	1999 Storm	(101,294)
20	Amortization Expense-DSM Costs	(C)	Post '98' DSM Costs	(104,370)
21	Storm Recovery Mechanism	Schedule B-4	Misc. & Per Diem	(10,000)
22	HQ Participation Agreement	Schedule B-3	HQ Part Agreement	(56,744)
23	Tree Trimming Expense	Testimony	Materials & Services	(71,000)
24	<i>Total Expense Adjustments</i>			<u>(6,646,060)</u>
<u>Income Taxes:</u>				
25	State Income Tax	Schedule C-6	Income Taxes	741,482
26	Federal Income Tax	Schedule C-6	Income Taxes	2,402,213
27	<i>Total Tax Adjustments</i>			<u>3,143,695</u>

Notes:

- (A) Adjustment Sponsored by DPS Witness Sean Foley
- (B) Adjustment Sponsored by DPS Witnesses Bruce Biewald and Paul Chernick
- (C) Adjustment Sponsored by DPS Witness Kathryn Parlin

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Schedule C-1

Revenue Adjustment

Line No.	Description	2000 Revenue @ Current Rates & Actual Billing Determinants (A)	Change in Unbilled Revenues (B)	Adjusted Revenues Per DPS (C) = (A)+(B)	Revenue per Filing (D)	Revenue Adjustment (E)
1	Residential Revenues	12,602,614	63,880	12,666,494	12,338,713	327,781
2	Commercial Revenues	6,389,599 (1)	30,448	6,420,047	6,231,268	188,779
3	Industrial Revenues	7,352,686	38,866	7,391,552	7,205,923	185,629
4	Public Authority	661,551	3,477	665,028	629,103	35,925
5	Street Lighting	211,619	1,042	212,661	211,693	968
5	Adjustment to Revenues					<u>739,082</u>

Col. (A): Company Schedule E.3.

Col. (B): Company Schedule C.1.1.

Col. (D): Company Schedule C.

(1) Amount based on actual 2000 billing determinants and present rates from Company Sch. E.3 of \$6,388,136 plus Company sponsored adjustment to "Increase Revenue due to delay in renewing LaBranche contract" on Company Sch. C.1.1 of \$1,463.

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Schedule C-2
Page 1 of 2

Allocated Administrative Costs

<u>Line No.</u>	<u>Description</u>	<u>Cost Center</u>	<u>Budget Amount</u>
1	2001 Budgeted Costs		
2	Executive Salaries	70210	1,639,536
3	Legal Expense - Tow	70210	81,000
4	Legal Expense - Avery vs CUC	70210	94,000
5	Travel Expenses - Graf & Tow	70210	55,000
6	Credit Cards - Tow	70210	10,000
7	Salaries New Hires	70548	435,000
8	Salaries New Hires - Net	70552	267,319
9	Mergers & Acquisitions	71310	346,200
10	Company Adjustment Amount		<u>19,978,453</u>
11	Items to Remove		22,906,508
12	VED 4-factor Per Company		<u>0.54%</u>
13	Revised Adjustment for Denied & Contentious Items		123,695
14	Company Adjustment for Denied & Contentious Items		<u>107,884</u>
15	Additional Expense Adjustment		<u><u>(15,811)</u></u>

Source: Lines 2-9 are from Company workpapers of Mr Raymond Mason, Tab 2.
Lines 10, 12 and 14 are from the workpapers of Mr. Raymond Mason, Tab 1.

Allocated Administrative Costs

Line No.	Description	Per Company (A)	Per Company (B)	Recalculated Adjustment (C)
1	Total SAO 2001 Billing System Budget	39,193,041	19,978,453	19,978,453
2	SAO 2001 Billing System VED Cost Distribution	578,159		295,681
3	Percentage of Total(Line 2 / Line 1)	1.48%		1.48%
4	2001 Budget 4-Factor for VED	0.70%		0.70%
5	Pro Forma 4-Factor for VED	0.54%	<u>0.54%</u>	0.54%
6	Percentage Change in 4-Factor (Line 5 / Line 4)	<u>0.771483677</u>		<u>0.771429</u>
7	Pro Forma SAO Cost Distribution to VED	446,040		
8	SAO Pro Forma Adjustment for Previously Denied or Contentious Items	<u>(107,884)</u>	<u>107,884</u>	<u>228,097</u>
9	Adjusted Pro Forma SAO Cost Distribution to VED	338,156		
10	Capitalization (Line 9 x 8%)	<u>(27,052)</u>		
11	Adjusted SAO Pro Forma Exp. Distribution to VED	<u>311,104</u>		

Source: (A) Raymond J Mason workpapers Tab 1.
(B) Raymond J Mason workpapers Tab 1.

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Schedule C-3

Line No.	Description	Per Company (A)	Per Department (B)	Reference
1	DAO Charges Budgeted 2001	67,020		
2	DAO Actual Expense - August 2001	35,100		
3	DAO Actual Expense - November 2001		41,624	a
4	Monthly Average Expense	4,388	3,784	b
5	Annualized Pro Forma DAO Cost	52,650	45,408	c
6	4-Factor Reduction	<u>77.14%</u>	<u>77.14%</u>	
7	DAO Pro Forma Expense to VED	<u>40,616</u>	<u>35,028</u>	
8	DAO Pro Forma Expense Annualization Adjustment		(5,588)	
9	Depreciation Adjustment		<u>(14,880)</u>	
10	DAO Pro Forma Expense Adjustment		<u>(20,468)</u>	

Source: Column A is from the workpapers of Raymond Mason, Tab 6.

(a) Company response to DPS 2-10.

(b) Column A is (Line 2 / 8 months) and column B is (Line 3 / 11 months).

(c) Line 4 x 12 months.

Line 8 is Line 7, Column B - Line 7, Column A.

Line 9 is per the Company response to DPS 8-14.

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Schedule C-4

Line No.	Description	Per Company (A)	Per Department (B)	Reference
1	PSO Charges Budgeted 2001	306,900		
2	PSO Actual Expense - April 2001	93,000		
3	PSO Actual Expense - November 2001		179,561	a
4	Monthly Average Expense	23,250	16,324	b
5	Annualized Pro Forma PSO Cost	279,000	195,885	c
6	Capitalization (8%)	<u>(22,320)</u>	<u>(15,671)</u>	
7	PSO Pro Forma Expense to VED	<u>256,680</u>	<u>180,214</u>	
8	PSO Pro Forma Expense Annualization Adjustment		(76,466)	
9	Depreciation Adjustment		<u>(7,345)</u>	
10	PSO Pro Forma Expense Adjustment		<u>(83,811)</u>	

Source: Column A is from the workpapers of Raymond Mason, Tab 5.

(a) Company response to DPS 2-7.

(b) Column A is (Line 2 / 4 months) and column B is (Line 3 / 11 months).

(c) Line 4 x 12 months.

Line 8 is Line 7, Column B - Line 7, Column A.

Line 9 is per the Company response to DPS 8-14.

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Schedule C-5

Rate Case Expense Adjustment

Line No.	Description	Hours Per Company (A)	Rate (B)	Settled Amount (C)	Added Amount (D)	
1	External Legal			75,000	75,000	*
	<u>Consulting Services</u>					
2	Power System			10,000	5,000	
3	Power Costs - Hieber			25,000	15,000	
4	Project Management			65,939	10,000	*
5	Case Analysis & Witness Training			-	-	*
6	Rate of Return			15,000	5,000	
7	Depreciation			10,000	2,000	
	<u>Internal Services</u>					
8	Mitten	100	183	18,300	14,640	*
9	Doherty	250	97	24,250	9,700	*
10	Christensen	200	103	20,600	4,120	*
11	McCarthy	40	214	8,560	1,712	*
12	Other	100	122	12,200	2,440	*
	<u>Travel & Miscellaneous</u>					
13	Mitten			4,000	4,000	
14	Doherty			10,000	4,000	
15	Christensen			8,000	1,600	
16	McCarthy			2,000	400	
17	Project Management			6,000	1,200	
18	Case Analysis & Witness Training			-	-	*
19	Rate of Return			-	2,000	
20	Power Cost			2,000	1,000	
21	Depreciation			1,000	1,000	
22	Other			5,000	1,000	
23	Department Witness-Fees & Expenses			60,000	60,000	
24	Total Cost			382,849	220,812	
25	Combined Cost				603,661	
26	Docket 6332				-	
27					603,661	
28	Amortization Per DPS				201,220	
29	Amortization Per Company				288,332	
30	Adjustment				(87,112)	

Source:

Amounts are from Company response to DPS Informal Request 40 and DPS 2-4 unless designated with an *. Asterix amounts are described in testimony.

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Schedule C-6

Income Tax Expense

Line No.	Description		Amount	Reference
1	Total Revenue Adjustments		\$739,082	Sch. C, page 2
2	Total Expense Adjustments		6,646,060	Sch. C, page 2
3	Subtotal - increse in pre-tax NOI		7,385,142	
4	DPS Change in Interest Expense Deduction		219,805	Line A.5
5	Change in Taxable Income		7,604,947	
6	Adjustment to State Income Tax	9.75%	741,482	
7	Change in Federal Taxable Income		6,863,465	
8	Adjustment to Federal Income Tax	35.00%	2,402,213	
A.1	Total Rate Base, per DPS		27,476,844	Schedule B
A.2	Weighted Cost of Debt, per DPS		3.55%	Schedule D
A.3	Deductible Interest, as Adjusted		975,428	
A.4	Deductible Interest, per Company		1,195,233	Co. Sch. C.4
A.5	Change in Interest Expense Deduction		(219,805)	

Citizens Communications Company
Vermont Electric Division
Test Year Ended December 31, 2000

Docket No. 6596
Exhibit DPS-HWS-1
Schedule D

Rate of Return

Line No.	Description	Capital Ratio	Cost Rate	Weighted Cost
		(1)	(2)	(3)
1	Long-Term Debt	50.00%	7.10%	3.55%
2	Common Equity	50.00%	5.75% (A)	2.88%
3	Total	100.00%		6.43%

Source/Notes:

Above amounts based on agreed upon 50/50 capital structure, cost of debt and return on equity, before penalty. The agreed upon return on equity of 11.0% is reduced by the 525 basis point penalty.